EUROMONEY

China’s cryptocurrency ban is not what it seems

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The People’s Bank doesn’t want a crypto-free country – it wants to own the market.

Don’t be surprised if China follows Russia’s lead in launching its own state-issued cryptocurrency by the end of the year. Don’t be surprised, either, if China’s own investors ignore it in favour of unregulated cryptocurrencies that they will continue to invest in despite China having apparently shut down the entire domestic industry in September.

There is plenty going on in the Digital Currency Research Institute at the People’s Bank of China (PBoC). When China announced a ban on initial coin offerings (a ban spearheaded by the PBoC but actually a joint statement between seven agencies) and then one week later banned the trading of bitcoin and other virtual currencies on all domestic exchanges, it was widely assumed that this was a temporary halt while China nuanced its position on what it is going to do about this unstoppable trend.

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The PBoC is not stupid. It will not have been surprised to see that after an initial plunge in the value of virtual currencies following the bank’s announcement, their worth has soared right back to where it started; nor will they be blind to the fact that this clearly represents the same Chinese investors going back in, whether through Hong Kong virtual exchanges like TideBit, or perhaps through Japan, which officially authorized 11 cryptocurrency exchanges in September just as China banned them (South Korea launched its own ban later in the month).

That is not a good outcome for China. At least when money was going into cryptocurrencies through local trading platforms like BTCC, OKCoin and Huobi, most trades were overseen by the People's Bank one way or another. With those flows going through overseas exchanges, China has no oversight of it at all.

CryptoYuan

Consequently two things are expected: one, a lifting of the ban once China has created a suitable regulatory environment, with the right know-your-customer, record-keeping and anti-money laundering systems in place; and two, China seeking to gain control of the whole thing by doing what Russia has just apparently decided to do and launch a state-backed cryptocurrency of its own, a CryptoYuan.

The Russian model, according to reports, means the new CryptoRouble will be issued, controlled and redeemed by the state, cannot be mined and can be exchanged for regular roubles at any time, with a tax levied if the holder cannot explain where they came from.

(Mining is the process of adding transaction records to a cryptocurrency's public ledger of past transactions, with this ledger validated and stored on the blockchain. In the broader cryptocurrency world, miners receive fees for validating transactions and including them in the block; the Russian model appears to allow this mining only to be done by the state.)

The People's Bank itself said in January 2016 that it was considering a digital version of the renminbi, although it was not clear who or what would be able to use it, how it would fit within China's strict regulations on movement of the currency or even how it would differ from just being an electronic form of the currency itself if it is backed by the state and matched to the real currency. It might not prove to be of much interest to Chinese investors who tend to like a bit of wild speculation in their trades. But one way or another, it is on its way.

All of this needs to be seen in the context of the Communist party congress in late October, and Xi Jinping calling for financial stability and security. It is no surprise that the ban came barely six weeks before this conference and it will be no surprise if it is lifted not long afterwards.

Julius Baer's Lifestyle Index: the materialist minutiae

It is rare to find much joy in the rubric of a wealth management index, but Julius Baer's Lifestyle Index for Asia is different. Its seventh review, released in October, made some interesting findings about the continuing demand for luxury goods and services in Asia, but the real fun is the materialist minutiae of how the index is compiled.

So, for example, this year fine dining was introduced to the index, which they decided to represent through a degustation menu at a top restaurant in each city in the survey (a footnote reveals that, ideally, it should have two Michelin stars).

A Cartier Love bracelet replaces a Tiffany solitaire diamond ring to represent the cost of jewellery in the index.

And in a big call, Julius Baer has taken tooth implants out of the lifestyle index and replaced it with Lasik, or cosmetic surgery. (Despite what you might think, it is most competitively priced in Seoul and most expensive in Bangkok.)

But some things remain the same: a bottle of Chateau Lafite Rothschild 2000 remains the benchmark for luxury wine and a BMW 7 Series remains the definitive luxury car.

Beyond all this, the survey’s central finding was the way that millennial wealth behaves differently to that of older generations and in particular the rise and rise of the experience economy, “where consumers increasingly prefer to live large rather than to own more.

“No doubt, fast cars, statement watches and designer bags remain objects of desire for many,” the survey says. “But new generations of the well-heeled are beginning to find gratification from unique experiences like dinner in a cosy members-only restaurant, or a 10-day cruise to Antarctica.”